YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
裕元工業（集團）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00551)

FINAL RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2017

GROUP FINANCIAL HIGHLIGHTS

Results for the year ended December 31, 2017

	2017	2016	**Percentage increase/ (decrease)**
Revenue *(US$'000)*	**9,121,426**	8,480,558	**7.56%**
Recurring profit attributable to owners of the Company *(US$'000)*	**500,829**	525,149	**(4.63%)**
Non-recurring profit attributable to owners of the Company *(US$'000)*	**18,397**	9,411	**95.48%**
Profit attributable to owners of the Company *(US$'000)*	**519,226**	534,560	**(2.87%)**
Basic earnings per share *(US cents)*	**31.55**	32.47	**(2.83%)**
Dividend per share			
Interim dividend *(HK$)*	**0.40**	0.40	**–**
Special dividend *(HK$)*	**3.50**	N/A	**N/A**
Final dividend (proposed) *(HK$)*	**1.10**	1.00	**10.00%**

* *For identification purposes only*

RESULTS

The directors (the "Directors") of Yue Yuen Industrial (Holdings) Limited (the "Company") are pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2017 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2017

	Notes	**2017** **US$'000**	2016 *US$'000*
Revenue	*3*	**9,121,426**	8,480,558
Cost of sales		**(6,770,280)**	(6,347,993)
Gross profit		**2,351,146**	2,132,565
Other income		**126,340**	119,141
Selling and distribution expenses		**(986,160)**	(804,685)
Administrative expenses		**(635,759)**	(611,145)
Other expenses		**(256,935)**	(234,959)
Finance costs		**(45,309)**	(23,257)
Share of results of associates		**43,735**	55,370
Share of results of joint ventures		**20,851**	11,476
Other gains and losses	*4*	**17,391**	7,650
Profit before taxation		**635,300**	652,156
Income tax expense	*5*	**(85,967)**	(76,089)
Profit for the year	*6*	**549,333**	576,067
Attributable to:			
Owners of the Company		**519,226**	534,560
Non-controlling interests		**30,107**	41,507
		549,333	576,067
		US cents	*US cents*
Earnings per share	*8*		
– Basic		**31.55**	32.47
– Diluted		**31.40**	32.42

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2017

	2017	2016
	US$'000	*US$'000*
Profit for the year	**549,333**	576,067
Other comprehensive (expense) income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit obligations, net of tax	**(9,670)**	(5,262)
Gain on revaluation of properties transferred from property, plant and equipment and prepaid lease payments to investment properties, net of tax	**4,698**	5,702
	(4,972)	440
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**54,939**	(49,812)
Fair value gain on available-for-sale investments	**11,993**	8,214
Share of other comprehensive income (expense) of associates and joint ventures	**15,924**	(6,723)
Reserve released upon disposal of subsidiaries	**(683)**	–
Reserve released upon disposal of associates and joint ventures	**(2,023)**	(451)
	80,150	(48,772)
Other comprehensive income (expense) for the year	**75,178**	(48,332)
Total comprehensive income for the year	**624,511**	527,735
Total comprehensive income attributable to:		
Owners of the Company	**573,099**	506,388
Non-controlling interests	**51,412**	21,347
	624,511	527,735

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2017

	Note	2017 US$'000	2016 US$'000
Non-current assets			
Investment properties		**85,985**	56,147
Property, plant and equipment		**2,182,285**	2,018,480
Deposits paid for acquisition of property, plant and equipment		**187,731**	105,807
Prepaid lease payments		**150,078**	161,489
Intangible assets		**124,429**	88,367
Goodwill		**277,505**	267,006
Interests in associates		**480,598**	492,208
Interests in joint ventures		**249,773**	367,195
Amounts due from joint ventures		**458**	2,516
Available-for-sale investments		**48,558**	36,541
Held-to-maturity investments		**8,787**	10,119
Financial assets at fair value through profit or loss		**19,580**	–
Rental deposits and prepayments		**23,624**	18,306
Deferred tax assets		**46,212**	24,573
		3,885,603	3,648,754
Current assets			
Inventories		**1,603,928**	1,260,147
Trade and other receivables	9	**1,696,434**	1,591,434
Prepaid lease payments		**4,606**	4,692
Taxation recoverable		**11,777**	2,673
Investments held for trading		**16,555**	17,053
Derivative financial instruments		**2,581**	2,531
Held-to-maturity investments		**1,213**	–
Bank balances and cash		**1,053,547**	1,041,486
		4,390,641	3,920,016
Assets classified as held for sale		**795**	43,004
		4,391,436	3,963,020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At December 31, 2017

	Note	**2017** *US$'000*	2016 *US$'000*
Current liabilities			
Trade and other payables	*10*	**1,452,314**	1,378,482
Taxation payable		**50,017**	29,828
Derivative financial instruments		**–**	9,785
Consideration payable for acquisition of business		**–**	8,689
Bank overdrafts		**16,722**	–
Bank borrowings		**679,347**	240,070
		2,198,400	1,666,854
Liabilities associated with assets classified as held for sale		**–**	33,109
		2,198,400	1,699,963
Net current assets		**2,193,036**	2,263,057
Total assets less current liabilities		**6,078,639**	5,911,811
Non-current liabilities			
Long-term bank borrowings		**1,283,993**	720,000
Deferred tax liabilities		**39,532**	35,129
Defined benefit obligations		**85,068**	62,686
		1,408,593	817,815
Net assets		**4,670,046**	5,093,996
Capital and reserves			
Share capital		**53,197**	53,211
Reserves		**4,225,463**	4,688,255
Equity attributable to owners of the Company		**4,278,660**	4,741,466
Non-controlling interests		**391,386**	352,530
Total equity		**4,670,046**	5,093,996

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

1. GENERAL

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note to the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note to the consolidated financial statements, the application of these amendments has had no impact on the Group's consolidated financial statements.

Comparative figures

The comparative figures of selling and distribution expenses and other expenses in the consolidated income statement were reclassified to conform to the presentation in the current year.

3. REVENUE AND SEGMENTAL INFORMATION

Information reported to the board of Directors, being the chief operating decision maker, for the purposes of resources allocation and assessment of performance focuses specifically on the revenue analysis by principal categories of the Group's business and the profit of the Group as a whole. The principal categories of the Group's business are manufacturing and sales of footwear products ("Manufacturing Business") and retail and distribution of sportswear and apparel products ("Retailing Business") which includes the operating and leasing of large scale commercial spaces to retailers and distributors.

Accordingly, the Directors have determined that the Group has only one operating segment, as defined in HKFRS 8 "Operating Segments". The information regarding revenue derived from the principal businesses described above is reported below.

	2017	2016
	US$'000	*US$'000*
Revenue		
Manufacturing Business	**6,092,371**	6,039,334
Retailing Business	**3,029,055**	2,441,224
	9,121,426	8,480,558

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2017	2016
	US$'000	*US$'000*
Athletic shoes	**4,203,782**	4,110,334
Casual/outdoor shoes	**1,192,159**	1,230,657
Sports sandals	**78,818**	93,781
Soles and components	**600,708**	568,310
Retail sales – shoes and apparel	**3,011,961**	2,426,532
Others	**33,998**	50,944
	9,121,426	8,480,558

3. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

Geographical information

The Group's revenue is mainly derived from customers located in the United States of America ("US"), Europe and the People's Republic of China (the "PRC"). The Group's revenue by the geographical location of the customers, determined based on the destination of goods delivered, irrespective of the origin of the goods, is detailed below:

	2017	2016
	US$'000	*US$'000*
US	**2,192,041**	2,090,833
Europe	**1,750,617**	1,679,875
PRC	**3,491,553**	3,098,602
Others	**1,687,215**	1,611,248
	9,121,426	8,480,558

The Group's business activities are conducted predominantly in the PRC, Vietnam, Indonesia, Myanmar, Cambodia and US. Information about the Group's non-current assets by the geographical location of the assets is detailed below:

	2017	2016
	US$'000	*US$'000*
PRC	**1,035,932**	1,054,492
Vietnam	**779,498**	649,946
Indonesia	**637,985**	574,410
Myanmar	**100,849**	82,207
Cambodia	**59,564**	35,746
US	**84,281**	19,792
Others	**56,023**	32,003
	2,754,132	2,448,596

note: Non-current assets excluded goodwill, interests in associates, interests in joint ventures, amounts due from joint ventures, deferred tax assets and financial instruments.

Information about major customers

Revenue from customers contributing over 10% of the total annual revenue of the Group are as follows:

	2017	2016
	US$'000	*US$'000*
Customer A	**1,665,216**	1,668,043
Customer B	**1,669,433**	1,617,234

4. OTHER GAINS AND LOSSES

	2017	2016
	US$'000	*US$'000*
Gain on disposal of associates	**11,565**	1,963
Gain on changes in fair value of derivative financial instruments	**9,419**	11,489
Gain on disposal of subsidiaries	**7,507**	112
Gain on deemed disposal of associates	**2,059**	265
Impairment loss on goodwill	**(5,380)**	(2,114)
Loss on deemed disposal of a joint venture	**(4,103)**	–
Fair value changes on investment properties	**(2,331)**	(181)
Fair value changes on financial assets at FVTPL	**(420)**	–
Loss on disposal of joint ventures	**(925)**	–
Fair value changes on consideration payable for acquisition of business	**–**	2,591
Impairment loss on interests in joint ventures	**–**	(87)
Impairment loss on amounts due from joint ventures	**–**	(4,515)
Impairment loss on rental deposits and prepayments	**–**	(1,495)
Impairment loss on property, plant and equipment	**–**	(378)
	17,391	7,650

5. INCOME TAX EXPENSE

	2017	2016
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
Hong Kong Profits Tax *(note i)*		
– current year	**–**	15
– underprovision in prior years	**–**	1
PRC Enterprise Income Tax ("EIT") *(note ii)*		
– current year	**65,394**	47,606
– (over) underprovision in prior years	**(366)**	5,573
Overseas taxation *(notes iii & iv)*		
– current year	**39,014**	30,482
– underprovision in prior years	**2,074**	2,326
	106,116	86,003
Deferred tax credit	**(20,149)**	(9,914)
	85,967	76,089

5. INCOME TAX EXPENSE (CONTINUED)

notes:

(i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

(ii) PRC

PRC EIT is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant enterprise income tax law, implementation rules and notices in the PRC, except as follows:

Pursuant to《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》(Caishui [2011] No. 58) and the Bulletin of the State Administration of Taxation [2012] No. 12 issued in 2011 and 2012, during the period from January 1, 2011 to December 31, 2020, any enterprise that is located in the Western Regions of the PRC and engaged in the business activities as listed in the "Catalogue of Encouraged Industries in Western Regions" (the "New Catalogue") as its major business from which the annual revenue accounts for more than 70% of its total revenue for the financial year, is entitled to pay EIT at the rate of 15% after its application is approved by the in-charge taxation authorities. Certain subsidiaries of the Company which are located in the specified provinces of Western Regions of the PRC and engaged in the business activities under the New Catalogue. The Directors consider that the relevant subsidiaries are eligible for the preferential tax rate of 15% in both years.

(iii) Vietnam

As approved by the relevant tax authorities in Vietnam, certain subsidiaries of the Company are entitled to two to four years' exemption from income taxes followed by four to nine years of a 50% tax reduction based on preferential income tax rates, commencing from the first profitable year.

The applicable tax rates for the subsidiaries in Vietnam range from nil to 20% for both years.

(iv) Overseas

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated October 18, 1999, certain subsidiaries of the Company established in Macau are exempted from Macao Complementary Tax.

Taxation arising in other jurisdictions including Indonesia, Republic of China ("Taiwan") and US is calculated at the rates prevailing in the respective jurisdictions, which were 25% (2016: 25%), 17% (2016: 17%) and 35% (2016: Nil) respectively.

6. PROFIT FOR THE YEAR

	2017	2016
	US$'000	*US$'000*
Profit for the year has been arrived at after charging:		
Employee benefit expense, including directors' emoluments		
– basic salaries, bonus and allowances	**1,902,299**	1,844,086
– retirement benefit scheme contributions	**233,606**	254,956
– share-based payments	**4,714**	1,833
	2,140,619	2,100,875
Release of prepaid lease payments	**5,735**	4,786
Auditor's remuneration	**1,944**	1,983
Amortization of intangible assets (included in selling and distribution expenses)	**16,834**	6,479
Depreciation of property, plant and equipment	**281,408**	251,378
Loss on disposal of property, plant and equipment (included in other expenses)	**26,243**	7,752
Research and development expenditure (included in other expenses)	**210,158**	196,266
Impairment loss recognized on trade and other receivables (included in other expenses)	**2,680**	4,299
Net allowance for inventories (included in cost of sales) *(note ii)*	**5,786**	1,251
Share of taxation of associates (included in share of results of associates)	**9,228**	13,663
Share of taxation of joint ventures (included in share of results of joint ventures)	**5,751**	8,126
Net exchange loss	**–**	6,771
Loss on disposal of prepaid land leases	**15**	509
and after crediting in other income:		
Interest income	**9,624**	8,289
Dividend income from available-for-sale investments	**1,246**	888
Net exchange gain	**17,520**	–
Subsidies, rebates and other income from suppliers	**19,814**	16,772
Gross rental income on investment properties, before deduction of direct operating expenses of approximately US$631,000 (2016: US$398,000)	**11,296**	8,173

notes:

(i) For the year ended December 31, 2017 and 2016, cost of inventories recognized as an expenses represents cost of sales as shown in the consolidated income statement.

(ii) Allowance for inventories of US$12,998,000 (2016: reversal of allowance for US$297,000) for the year ended December 31, 2017 arose from the finished goods for the retail and distribution of sportswear products.

7. DIVIDENDS

	2017	2016
	US$'000	*US$'000*
Dividends recognized as distribution during the year:		
2017 Interim dividend of HK$0.40 per share (2016: 2016 Interim dividend of HK$0.40 per share)	**84,259**	84,940
2017 Special dividend of HK$3.50 per share (2016: Nil)	**737,269**	–
2016 Final dividend of HK$1.00 per share (2016: 2015 Final dividend of HK$0.80 per share)	**211,400**	169,735
	1,032,928	254,675

The Directors recommend the payment of a final dividend of HK$1.10 per share for the year ended December 31, 2017. The proposed dividend of approximately HK$1,809,969,000 will be paid on or before June 29, 2018 to those shareholders whose names appear on the Company's register of members on June 11, 2018.

This proposed dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

As disclosed in the Company's announcement dated March 16, 2018, the board of Directors has declared a special dividend of HK$4.10 per share subject to the Proposal (as defined in Note 12) and the Scheme (as defined in Note 12) becoming effective and will be payable to shareholders whose names appear on the register of members of the Company on a record date to be fixed and announced by the Company. For further details, please refer to the joint announcement of the Company, Pou Sheng International (Holdings) Limited ("Pou Sheng") and Pou Chen Corporation ("PCC") dated January 21, 2018, the Company's announcement dated February 27, 2018, and the Company's circular dated February 27, 2018.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2017	2016
	US$'000	*US$'000*
Earnings:		
Earnings for the purpose of basic earnings per share, being profit for the year attributable to owners of the Company	**519,226**	534,560
Effect of dilutive potential ordinary shares		
Adjustment to the share of profit of subsidiaries based on dilution of their earnings per share	**(2,059)**	(513)
Earnings for the purpose of diluted earnings per share	**517,167**	534,047

	2017	2016
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,645,799,771**	1,646,478,146
Effect of dilutive potential ordinary shares:		
– Unvested awarded shares	**1,053,420**	641,487
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,646,853,191**	1,647,119,633

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme.

9. TRADE AND OTHER RECEIVABLES

The Group allows credit period ranging from 30 days to 90 days which are agreed with each of its trade customers.

Included in trade and other receivables are trade and bills receivables, net of allowance for doubtful debts, of US$1,236,086,000 (2016: US$1,181,098,000) and an aged analysis based on invoice date at the end of the reporting period, which approximated to the respective revenue recognition dates, is as follows:

	2017	2016
	US$'000	*US$'000*
0 to 30 days	**758,844**	690,268
31 to 90 days	**453,325**	446,609
Over 90 days	**23,917**	44,221
	1,236,086	1,181,098

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$461,480,000 (2016: US$444,907,000) and an aged analysis based on the invoice date at the end of the reporting period is as follows:

	2017	2016
	US$'000	*US$'000*
0 to 30 days	**345,244**	331,159
31 to 90 days	**106,376**	101,695
Over 90 days	**9,860**	12,053
	461,480	444,907

11. CONTINGENCIES

At the end of the reporting period, the Group had contingent liabilities as follows:

	2017	2016
	US$'000	*US$'000*
Guarantees given to banks in respect of banking facilities granted to		
(i) joint ventures		
– amount guaranteed	**26,425**	49,375
– amount utilized	**15,500**	16,950
(ii) associates		
– amount guaranteed	**17,345**	56,771
– amount utilized	**5,693**	983

12. EVENT AFTER THE REPORTING PERIOD

As disclosed in the announcement jointly issued by PCC, Pou Sheng and the Company dated January 21, 2018, PCC requested the board of directors of Pou Sheng to put forward the proposal (the "Proposal") for the privatization of Pou Sheng by PCC by way of a scheme of arrangement under Section 99 of the Companies Act 1981 of Bermuda (the "Scheme"). The Proposal and the Scheme will become effective subject to the fulfilment or waiver (as applicable) of certain conditions, which includes, among others, the passing of an ordinary resolution by the independent shareholders of the Company at the special general meeting held on March 16, 2018 (the "SGM") to approve the effective disposal of all Pou Sheng shares held by the Group to PCC (the "Disposal").

Accordingly, the Proposal, as and when it is implemented, will involve the Company effectively disposing of all its Pou Sheng shares representing approximately 62.38% of the total issued share capital of Pou Sheng to PCC at the cancellation price of HK$2.03 per Pou Sheng share through the cancellation of all such Pou Sheng shares in exchange for PCC paying to the Company a total consideration of approximately HK$6,763 million (equivalent to approximately US$867 million). The Company is expected to recognized a gain from the Disposal. Details of the Disposal are set out in the Company's circular dated February 27, 2018.

On March 16, 2018, the SGM was held and the ordinary resolution to approve, among other things, the Disposal, was duly passed as an ordinary resolution of the Company by the Company's independent shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS 2017

RESULTS

In the financial year ended December 31, 2017, the Group recorded revenue of US$9,121.4 million, representing a growth of 7.6%, compared to the same period of last year. The profit attributable to owners of the Company declined by 2.9% to US$519.2 million, as compared to US$534.6 million for the previous financial year. Basic earnings per share decreased by 2.8% to 31.55 US cents, as compared with 32.47 US cents for the year ended December 31, 2016.

Recurring Profit Attributable to Owners of the Company

Excluding all items of non-recurring operating in nature, the recurring profit for the year ended December 31, 2017, decreased by 4.6% to US$500.8 million, compared to a recurring profit of US$525.1 million for the previous financial year. The Group's non-recurring profit in the year under review amounted to US$18.4 million, which included fair value gain on derivative financial instruments, as well as a gain of US$19.1 million on the disposal of associates and subsidiaries. For the year ended December 31, 2016, the profit attributable to owners of the Company included a non-recurring profit of US$9.4 million.

OPERATIONS

General Overview

Yue Yuen is the world's largest manufacturer of athletic, athleisure, casual and outdoor footwear with diversified portfolios of brand customers and production sites. The Group's production capacity is widely recognized for its responsiveness, flexibility, innovation, design and development capabilities, and superior quality. Throughout the year under review, the Group continued to provide differentiated value-added and one-stop OEM/ODM services to leading international brand customers that it has maintained long-term relationships with.

The Group also operates one of the largest and most integrated sportswear retail networks in the Greater China region, as well as event management and sport services. In response to intensifying competition and omni-channel integration from 'brick and mortar' channels to e-commerce channels, the Group is currently in the process of strengthening its market presence and optimizing profitability by implementing customer experience-focused initiatives, expanding its omni-channel capabilities and investing in the latest information systems and technologies that enhance the online and offline shopping experience. For a more detailed explanation of the Group's retail business model, please refer to the annual report of Pou Sheng International (Holdings) Limited ("Pou Sheng"), a listed subsidiary of the Company as at the date of this announcement.

Throughout the year under review, the Group continued to adapt to the ever-changing market environment, in particular increasing demand for greater versatility and flexibility among consumers. In particular, the Group focused on: enhancing its lean manufacturing and efficiency; upgrading its equipment and machinery; and improving its technological innovation, process re-engineering and automation, to improve its efficiency at key production sites across the region, in line with customer demand.

The Group remains committed to sustainability, ethical conduct and corporate values. Each business unit considers the interests of all stakeholders, including employees and the surrounding community, when making important business decisions. The Group monitors and manages its business units using comprehensive guidelines on industrial relations, workplace safety and the efficient use of raw materials, energy, and other environmental metrics, promoting a culture of ethical conduct and integrity. The Group is also dedicated to fostering a caring culture and to developing talent internally as part of its long-term sustainable development. For more details on the Group's sustainable development strategy and reporting on Environmental, Social and Governance ("ESG"), please refer to the Group's ESG report for 2017.

Total Revenue by Product Category

In the financial year ended December 31, 2017, revenue attributed to the Group's manufacturing business improved by 0.9% as compared to the previous financial year, while the volume of footwear produced grew to 324.6 million pairs. Gross profit of the Group's manufacturing business improved during the period under review. Despite facing rising wages and raw material price volatility, while increasing investments in the automation related areas, we still managed to achieve better operational efficiency which contributed to our gross margin expansion.

Vietnam, Indonesia and the PRC continued to be the Group's main production locations by volume, representing 45%, 36% and 17% of total shoe production respectively during the year under review.

The Group's athletic footwear category outperformed all other categories as a result of the global athleisure trend, accounting for 76.8% of footwear manufacturing revenue, while casual/outdoor shoes accounted for 21.8%. When considering the Group's consolidated revenue, athletic shoes still represented the Group's principal category, accounting for 46.1% of total revenue, followed by casual/outdoor shoes, which accounted for 13.1% of total revenue.

The Group's retail sales are derived primarily from its retail operations in the Greater China region, namely the sale of international brand-name athletic footwear and apparel in major cities. In the financial year ended December 31, 2017, the revenue attributable to Pou Sheng, the Group's retail subsidiary, grew by 13.6% to US$2,775.4 million, compared to US$2,443.7 million in the previous financial year. In RMB terms (Pou Sheng's reporting currency), revenue increased by 16.0% to RMB18,833.3 million, compared to RMB16,236.4 million in the previous financial year. As of December 31, 2017, Pou Sheng had 5,465 directly operated retail outlets and 3,313 stores operated by sub-distributors in the PRC. Pou Sheng's gross profit margin declined from 35.5% in the same period of last year to 35.0% due to increased discounting and allowances on the aging inventory of emerging brands.

Total Revenue by Product Category

	For the year ended December 31,				
	2017		2016		
	US$ millions	*%*	*US$ millions*	*%*	*% change*
Athletic Shoes	**4,203.8**	**46.1**	4,110.3	48.5	2.3
Casual/Outdoor Shoes	**1,192.2**	**13.1**	1,230.7	14.5	(3.1)
Sports Sandals	**78.8**	**0.8**	93.8	1.1	(16.0)
Retail Sales – Shoes, Apparel & Leasing	**3,029.1**	**33.2**	2,441.2	28.8	24.1
Soles, Components & Others	**617.5**	**6.8**	604.6	7.1	2.1
Total Revenue	**9,121.4**	**100.0**	8,480.6	100.0	7.6

Orders from international brands are received by the sales departments that manage each customer and normally take about ten to twelve weeks to fill.

Sales for the Group's retail business across the Greater China region are taken on a daily basis or at periodic intervals from sub-distributors.

Production Review

During the year under review, the Group's manufacturing business produced a total of 324.6 million pairs of shoes, up 0.8% compared to 322.0 million pairs produced in the previous financial year. The average selling price per pair was US$16.87, compared to US$16.88 in the previous financial year.

Cost Review

With respect to the Group's manufacturing business, revenue in the financial year ended December 31, 2017 amounted to US$6.1 billion (2016: US$6.0 billion) whereas the direct labor costs were US$1.2 billion (2016: US$1.2 billion). Total main material costs were US$2.3 billion (2016: US$2.3 billion) and total production overheads amounted to US$1.3 billion (2016: US$1.3 billion).

For the Group's distribution business, revenue during the year under review amounted to US$3.0 billion (2016: US$2.4 billion). Distribution stock costs were US$2.0 billion (2016: US$1.6 billion).

The Group's total selling and distribution expenses for the year under review amounted to US$986.2 million (2016: US$804.7 million), equivalent to approximately 10.8% (2016: 9.5%) of revenue. The increase in selling and distribution expenses was attributable mostly to the optimization and upgrade of directly operated retail outlets, increased remuneration for sales staff at Pou Sheng, as well as the consolidation of Texas Clothing Group, the new subsidiary engaging in the apparel wholesale business that the Group acquired in the second quarter of the financial year ended December 31, 2017.

Administrative expenses for the year under review amounted to US$635.8 million (2016: US$611.1 million), equivalent to approximately 7.0% (2016: 7.2%) of revenue, remaining stable.

With cost pressures remaining significant for both the manufacturing and distribution businesses, the management of both units will continuously look for ways to improve efficiency and productivity.

Product Development

During the year under review, the Group spent US$210.2 million (2016: US$196.3 million) on product development, including investments in sample and technical development, as well as in production efficiency enhancements. For each of the major branded customers that have a research/development team, a parallel independent product development center exists within the Group to look after the said research/development team. In addition to this product development work, the Group also cooperates with its customers to seek efficiency improvements in production processes, lead times and to formulate new techniques to produce high-quality footwear, as well as to incorporate innovative and environmentally-friendly materials into the footwear design, development and manufacture of footwear.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's financial position remained solid. As at December 31, 2017, the Group had cash and cash equivalents of US$1,036.8 million (2016: US$1,042.8 million) and total bank borrowings of US$1,963.3 million (2016: US$960.1 million). The Group's gearing ratio (total borrowings to total equity) was 42.0% (2016: 18.8%). As of December 31, 2017, the Group had net borrowing of US$926.5 million (2016: net cash US$82.8 million). The increased borrowing was mainly attributable to the efforts to improve the Group's capital structure, as well as increased bank borrowings by Pou Sheng for working capital purposes.

The Group used forward contracts for currency hedging purposes.

Capital Expenditure

During the year under review, the capital expenditure for the Group's manufacturing and distribution segments were US$463.0 million (2016: US$374.4 million) and US$89.6 million (2016: US$78.0 million) respectively. Capital expenditure during the year under review included capacity upgrades and the maintenance of production facilitates in Vietnam and Indonesia, as well as R&D for the Group's product development and process re-engineering, which was funded primarily by internal resources. For the distribution segment, resources were invested in the expansion, upgrade and maintenance of new experience stores.

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates, the details of which can be seen in note 45 to the consolidated financial statements in the 2017 annual report of the Company.

Significant Investments Held and Performance

During the year under review, the share of results from associates and joint ventures was a combined profit of US$64.6 million, compared to a combined profit of US$66.8 million in the previous financial year.

Details of the material acquisitions and disposals of subsidiaries in the period are set out in note 40 and note 41 to the consolidated financial statements in the 2017 annual report of the Company.

Dividends

A final dividend of HK$1.10 per share (2016: HK$1.00 per share) for the year ended December 31, 2017 has been recommended, amounting to a total dividend per share for the year of HK$5.00 (2016: HK$1.40 per share), inclusive of an interim dividend of HK$0.40 per share (2016: HK$0.40 per share) and a one-off special dividend of HK$3.50 per share (2016: NIL).

The Group's operating cash flow remains strong and a suitable level of cash holdings will be maintained. The Group remains committed to creating shareholder value and generating shareholder returns through dividends, through steady earnings growth and strong free cash flow. Excluding the special dividend, the dividend payout ratio in the financial year 2017 was 61.1% (2016: 55.7%).

As disclosed in the Company's announcement dated March 16, 2018, the Board has declared a special dividend of HK$4.10 per share subject to the Proposal (as defined below) and the Scheme (as defined below) becoming effective and will be payable to shareholder(s) whose name(s) appear on the register of members of the Company on a record date to be fixed and announced by the Company. For further details, please refer to the joint announcement of the Company, Pou Sheng and Pou Chen dated January 21, 2018, the Company's announcement dated February 27, 2018, and the Company's circular dated February 27, 2018.

Foreign Exchange Exposure

All revenues from the manufacturing business are denominated in US dollars. The majority of material and component costs are paid in US dollars, while expenses incurred locally are paid for in the local currency i.e. wages, utilities and local regulatory fees. A small portion of RMB and IDR exposure are partly hedged with forward contracts.

For the Group's retail business in the PRC, all revenues are denominated in RMB. Correspondingly, all expenses are also denominated in RMB. For the retail business outside the PRC, both revenues and expenses are denominated in local currencies.

Goodwill and Intangible Assets

The goodwill and intangible assets recorded on the Group's Consolidated Statement of Financial Position are the result of acquisitions of businesses in the distribution and manufacturing industries.

Employees

As at December 31, 2017, the Group had approximately 361,000 employees employed across all regions, a slight increase of 1.7% as compared to 355,000 employees as at December 31, 2016. The Group adopts a remuneration system based on an employee's performance throughout the period and prevailing salary levels in the market.

PROSPECTS

The manufacturing business will continue to face market uncertainties, intense competition and potential risks arising from the challenging and dynamic operating environment. These risks include stronger-than-expected wage inflation, raw material price volatility, and a weakening US dollar against regional Asian currencies. That said, economic growth and consumer sentiment should continue to improve in most major economies, including the United States, the PRC and the Eurozone, providing new growth opportunities for the Group and its customers.

To hedge against rising competition and market uncertainties, the Group will further leverage its core strengths and edges to safeguard its sustainable and steady growth. This includes continuing to enhance its product and material development capability, and exploring vertical integration and related business opportunities to tap new markets, which could also create synergies for the Group in the long-term.

In the retail segment, Pou Sheng continues to face increased market competition and other challenges in the sporting goods industry and is exploring and investing heavily in a variety of initiatives to adapt to the shifting market dynamics. All these initiatives require significant investment and resources. As a result, on January 21, 2018, the Group's parent company, Pou Chen Corporation ("Pou Chen"), requested Pou Sheng's Board to put forward the proposal for the privatization of Pou Sheng by Pou Chen (the "Proposal") by way of a scheme of arrangement under Section 99 of the Bermuda Companies Act (the "Scheme").

While Pou Sheng has always been operating independently from the Group, the disposal of all Pou Sheng shares held by it or its subsidiaries to Pou Chen (the "Disposal") will remove any uncertainty that resources may be diverted from the Group to Pou Sheng. If the Proposal is confirmed and implemented, the Company will be effectively disposing of all its Pou Sheng shares, representing approximately 62.38% of the total issued share capital of Pou Sheng, to Pou Chen at the proposed cancellation price of HK$2.03 per share. The Disposal provides the Company with a cash exit, and enables the Company to generate aggregate net proceeds of approximately HK$6,759 million which will be distributed to shareholder by way of a one-off special dividend of HK$4.1 per share of the Company (the "Special Dividend"). The board of Directors has resolved to declare the Special Dividend subject to the Scheme and Proposal becoming effective. Yue Yuen is expected to recognise a gain before transaction costs of approximately US$305 million from the Disposal.

For further details of the Proposal, please refer to the joint announcement of the Company, Pou Chen and Pou Sheng dated January 21, 2018, as well as the scheme document jointly issued by Pou Sheng and Pou Chen dated March 12, 2018.

The Disposal of Pou Sheng will enable the Group to focus more on its core manufacturing segment, ensuring that it will remain a global manufacturing leader – of both athletic and casual/outdoor footwear, as well as a growing suite of other products – while upholding its fundamental principles and core values, as well as its commitment to world-class corporate social responsibility.

Looking forward, the Group's main priority is to increase revenue growth by providing differentiated services and irreplaceable value to its customers, while growing profitability through the increased use of automation, innovation and production workflow optimization. This will require continuous investments in technology, process re-engineering and other enhancements to the Group's manufacturing capabilities. This will enable it to continue providing branded customers with end-to-end manufacturing solutions, maintaining solid profitability so as to ensure sustainable returns for shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2017, the Company repurchased a total of 426,500 shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at a total consideration of HK$11,851,525.00 (equivalent to approximately US$1,523,000).

Details of the repurchases of shares of the Company during the year ended December 31, 2017 are set out as follows:

Date of repurchase	No. of shares repurchased	Highest price paid	Lowest price paid	Total paid
		HK$	*HK$*	*HK$*
November 30, 2017	374,500	27.80	27.65	10,395,525.00
December 1, 2017	52,000	28.00	28.00	1,456,000.00
Total:	426,500			11,851,525.00

The aforesaid repurchased shares of the Company were cancelled on December 27, 2017. The Directors believe that the repurchases of shares would lead to an enhancement of the net asset value per share of the Company and its earnings per share. Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2017.

CORPORATE GOVERNANCE

During the year ended December 31, 2017, the Company has applied the principles of and has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

RE-ELECTION OF DIRECTORS

In accordance with Bye-law 87 of the Bye-laws of the Company (the "Bye-laws"), Mr. Lin Cheng-Tien, Mr. Hu Chia-Ho, Mr. Leung Yee Sik, Mr. Chu Li-Sheng and Ms. Yen Mun-Gie (also known as Teresa Yen) will retire by rotation and except for Mr. Leung Yee Sik, having served the Company for more than 9 years, and Mr. Chu Li-Sheng who have informed the Company that they will not offer themselves for re-election due to their other commitments, Mr. Lin Cheng-Tien, Mr. Hu Chia-Ho and Ms. Yen Mun-Gie (also known as Teresa Yen), being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company ("2018 AGM").

In accordance with Bye-law 86(2) of the Bye-laws, Mr. Wong Hak Kun who was appointed to fill a casual vacancy of the Board (the effective date of appointment will be on June 1, 2018) shall hold office until 2018 AGM when he will retire and, being eligible, proposed to offer himself for re-election.

Further details of the retiring directors proposed to be re-elected at the 2018 AGM will be disclosed in the circular of the Company to be dispatched, together with the 2017 annual report of the Company, to the shareholders of the Company in due course.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the year ended December 31, 2017.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with management and the external auditor the Group's consolidated financial statements for the year ended December 31, 2017, the accounting principles and practices adopted and discussed auditing, risk management and internal controls, and financial reporting matters.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Company (www.yueyuen.com) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company will be dispatched to the shareholders of the Company and available on the above websites in due course.

PUBLIC FLOAT

As far as the Company is aware, as at the date of this announcement, the Company has maintained a sufficient public float with more than 25% of the issued shares of the Company being held by the public.

ANNUAL GENERAL MEETING

The 2018 AGM will be held on June 4, 2018 and the notice will be published and issued to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

Entitlement to attend and vote at 2018 AGM

For determining the entitlement of the shareholders of the Company to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Tuesday, May 29, 2018 to Monday, June 4, 2018, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Monday, May 28, 2018 in order to be eligible to attend and vote at the 2018 AGM.

Entitlement to the proposed final dividend

For determining the entitlement of the shareholders of the Company to the proposed final dividend, the register of members of the Company will be closed from Monday, June 11, 2018 to Wednesday, June 13, 2018, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Friday, June 8, 2018 in order to be qualified for the proposed final dividend.

ACKNOWLEDGMENT

I would like to take this opportunity to express our sincere appreciation of the support from our customers, suppliers and shareholders. I would also like to thank my fellow directors for their valuable contribution and the staff members of the Group for their commitment and dedicated services throughout last year.

By Order of the Board
Yue Yuen Industrial (Holdings) Limited
Lu Chin Chu
Chairman

Hong Kong, March 23, 2018

As at the date of this announcement, the Board comprises the following members:

Executive Directors:

Mr. Lu Chin Chu (Chairman), Ms. Tsai Pei Chun, Patty (Managing Director), Mr. Chan Lu Min, Mr. Lin Cheng-Tien, Mr. Tsai Ming-Lun, Ming, Mr. Hu Chia-Ho, Mr. Liu George Hong-Chih and Mr. Hu Dien Chien.

Independent Non-executive Directors:

Mr. Leung Yee Sik, Mr. Huang Ming Fu, Mr. Chu Li-Sheng, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh).

Website: www.yueyuen.com